iGAAP in Focus

Financial reporting

IASB introduces reduced disclosure framework for subsidiaries

Contents

This *iGAAP in Focus* outlines IFRS 19 *Subsidiaries without Public Accountability: Disclosures* published by the International Accounting Standards Board (IASB) on 9 May 2024.

- The IASB published IFRS 19, which permits an eligible subsidiary to provide reduced disclosures when applying IFRS Accounting Standards in its financial statements
- A subsidiary is eligible for the reduced disclosures if it does not have public accountability and its ultimate or any intermediate parent produces consolidated financial statements available for public use that comply with IFRS Accounting Standards
- IFRS 19 is optional for subsidiaries that are eligible and sets out the disclosure requirements for subsidiaries that elect to apply it
- The new standard is effective for reporting periods beginning on or after 1 January 2027 with earlier application permitted.

Background

When their parent applies IFRS Accounting Standards, subsidiaries generally apply the recognition and measurement requirements in IFRS Accounting Standards when reporting to their parent for consolidation purposes.

The IASB received feedback that some of these subsidiaries would prefer to prepare their own financial statements by applying IFRS Accounting Standards with reduced disclosure requirements.

For more information please see the following websites:

www.iasplus.com

www.deloitte.com

The IASB acknowledged that the *International Financial Reporting Standard for Small and Medium-sized Entities* (*IFRS for SMEs* Accounting Standard) is unappealing for these subsidiaries because its recognition and measurement requirements differ from those in IFRS Accounting Standards.

Thereby, a subsidiary applying the *IFRS for SMEs* Accounting Standard would be required to maintain additional accounting records for purposes of reporting to their parent.

To address this issue, the IASB published an **exposure draft** (ED) titled *Subsidiaries without Public Accountability: Disclosures* in July 2021. The IASB has now finalised this ED by publishing IFRS 19.

Observation
The IASB made the following key changes to the proposals in the ED:

- aligning the language used in the standard with that used in IFRS Accounting Standards
- amending the detailed disclosure requirements, particularly those relating to financial instruments
- introducing a narrow-scope disclosure requirement relating to credit risk that applies to only one group of eligible subsidiaries
- changing the structure of the standard, including the location of references to disclosure requirements from other IFRS Accounting Standards that remain applicable.

Objective
IFRS 19 specifies the disclosure requirements an entity is permitted to apply instead of the disclosure requirements in the other IFRS Accounting Standards.

Scope
An entity is only permitted to apply IFRS 19 if, at the end of the reporting period:

- it is a subsidiary (this includes an intermediate parent)
- it does not have public accountability, and
- its ultimate or any intermediate parent produces consolidated financial statements available for public use that comply with IFRS Accounting Standards.

A subsidiary has public accountability if:

- its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets), or
- it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (for example, banks, credit unions, insurance entities, securities brokers/dealers, mutual funds and investment banks often meet this second criterion).

Observation
The definition of public accountability in IFRS 19 is the same as in the *IFRS for SMEs* Accounting Standard. Accordingly, eligible subsidiaries are a subset of SMEs. The IASB developed IFRS 19 to address cost-benefit considerations of this subset of SMEs that find the application of the *IFRS for SMEs* Accounting Standard unappealing because of the need to report to their parent entity applying IFRS Accounting Standards (see **Background** above).

Eligible entities can apply IFRS 19 in their consolidated, separate or individual financial statements. An eligible intermediate parent that does not apply IFRS 19 in its consolidated financial statement may do so in its separate financial statements.

Electing or revoking an election to apply IFRS 19
An entity that elects to apply IFRS 19 in one reporting period is allowed to later revoke that election. An entity is also allowed to elect to apply IFRS 19 more than once.

The comparative information (that is, information for the preceding period) is determined based on whether IFRS 19 is applied in the current period:

- an entity that applies IFRS 19 in the current reporting period but not in the immediately preceding period is required to provide comparative information for all amounts reported in the current period's financial statements, unless IFRS 19 or another IFRS Accounting Standard permits or requires otherwise

- similarly, an entity that applied IFRS 19 in the preceding reporting period—but elects not to (or is no longer eligible to) apply it in the current period is required to provide comparative information with respect to the preceding period for all amounts reported in the current period's financial statements, unless another IFRS Accounting Standard permits or requires otherwise.

The requirements for changes in accounting policies in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* do not apply to electing or revoking an election to apply IFRS 19.

Interaction with IFRS 1 *First-time Adoption of International Financial Reporting Standards*
IFRS 19 provides reduced disclosures with regard to first-time adoption of IFRS Accounting Standards to an eligible entity that applies IFRS 1 (e.g. an entity that prepares its first IFRS financial statements).

Electing or revoking an election to apply IFRS 19 does not, on its own, result in an entity meeting the definition of a first-time adopter of IFRS Accounting Standards in the sense of IFRS 1.

The reduced disclosure requirements

The disclosure requirements in IFRS 19 are a reduced version of the disclosure requirements set out in the other IFRS Accounting Standards.

IFRS 19 is a disclosure-only standard. An eligible subsidiary that applies IFRS 19 is required to apply the requirements in the other IFRS Accounting Standards for recognition, measurement and presentation requirements. For disclosure requirements, it applies IFRS 19 instead of the disclosure requirements in the other IFRS Accounting Standards, except in the following circumstances:

- some disclosure requirements in the other IFRS Accounting Standards remain applicable to an entity applying IFRS 19—these are specified in IFRS 19

- if an entity applying IFRS 19 also applies IFRS 8 *Operating Segments,* IFRS 17 *Insurance Contracts* or IAS 33 *Earnings per Share*, it is required to apply all the disclosure requirements in those other standards

- a new or amended IFRS Accounting Standard may include disclosure requirements about an entity's transition to that new or amended standard. Any relief granted to an entity applying IFRS 19 regarding these transition disclosure requirements will be set out in the new or amended IFRS Accounting Standard.

In accordance with IFRS 18 *Presentation and Disclosure in Financial Statements*, an entity applying IFRS 19 is not required to provide a specific disclosure required by IFRS 19 if the information resulting from that disclosure would not be material.

An entity is required to consider whether to provide additional disclosures when compliance with the specific requirements in IFRS 19 is insufficient to enable users of financial statements to understand the effect of transactions and other events and conditions on the entity's financial position and financial performance.

An entity whose financial statements comply with IFRS Accounting Standards and the requirements in IFRS 19 is required to make an explicit and unreserved statement of such compliance in the notes, stating that it has applied IFRS 19.

Effective date

IFRS 19 is effective for reporting periods beginning on or after 1 January 2027. Earlier application is permitted. If an entity chooses to apply IFRS 19 earlier, it is required to disclose that fact.

IFRS 18

IFRS 18 was issued in April 2024 and supersedes IAS 1 *Presentation of Financial Statements*. IFRS 18 applies to annual reporting periods beginning on or after 1 January 2027 and earlier application is permitted. An entity that elects to apply IFRS 19 for a reporting period earlier than the reporting period in which it first applies IFRS 18 is required to apply a modified set of disclosure requirements set out in an appendix to IFRS 19.

Amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates*

Lack of Exchangeability, issued in August 2023, amended IAS 21 by adding new disclosure requirements. The amendments to IAS 21 apply to annual reporting periods beginning on or after 1 January 2025, and earlier application is permitted. If an entity applies IFRS 19 for an annual reporting period that begins before 1 January 2025 and has not applied the amendments to IAS 21, it is not required to apply the disclosure requirements in IFRS 19 with regard to *Lack of Exchangeability*.

Observation

IFRS 19 will be amended as necessary to ensure it remains up to date and consistent with any new or amended disclosure requirements in the other IFRS Accounting Standards. When developing a new standard or amendments to a standard, the IASB will apply the principles for reducing disclosure requirements and assess costs and benefits for eligible subsidiaries. The IASB will then obtain feedback on the reduced disclosure requirements and will publish them as consequential amendments to IFRS 19, which will be included in an appendix to the new standard or the amendments.

In developing IFRS 19, the IASB took into account disclosure requirements in IFRS Accounting Standards as at 28 February 2021. Disclosure requirements in standards that have been added or amended subsequently have been included unchanged. The IASB will publish a ‘catch-up’ exposure draft of proposed amendments to IFRS 19 on disclosure requirements added to, or amended in, IFRS Accounting Standards between 28 February 2021 and May 2024. At the time of writing, the catch-up exposure draft is expected to be published in Q3 of 2024.

Further information

If you have any questions about IFRS 19, please speak to your usual Deloitte contact or get in touch with a contact identified in this *iGAAP in Focus*.

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